

## P335 'Inclusion of Non-BM STOR costs and volumes in the indicative cashout price'

P335 seeks to facilitate the submission of non-BM STOR costs and volumes such that they can be included in the indicative cashout price. The aim of this Modification is to improve the incentivising signals provided by cashout and facilitate optimal trading decisions by participants.



ELEXON recommends P335 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- The Transmission Company
- ELEXON
- The Balancing Mechanism Reporting Service (BMRA)



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## About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 10 March 2016. The Panel will consider the recommendations and agree how to progress P335.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P335 Proposal Form.

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# 1 Why Change?

## Background

Balancing services are used by the Transmission Company (TC) in its role as System Operator (SO) to balance supply and demand in real time. Details of accepted Balancing Services are used in the calculation of imbalance prices (also known as cash-out prices).

## Balancing Service Adjustment Data

The Balancing Service Adjustment Data (BSAD) Methodology Statement sets out information on relevant balancing services that are taken outside of the Balancing Mechanism (BM) to balance the system and are taken into account under the BSC for the purposes of determining Imbalance Prices. Some of these balancing services are included in the price calculation stack as discrete balancing actions called Balancing Service Adjustment Actions (BSAAs), and other costs are reflected in additions to the final imbalance price, called the Buy Price Adjuster (BPA) and the Sell Price Adjuster (SPA).

The Balancing and Settlement Code (BSC) requires the Transmission Company to submit its estimate of BSAD in relation to a Settlement Period as soon as reasonably practicable after Gate Closure for, and in any event not later than the end of, that Settlement Period. This is so BSAD can be used in the BMRA's calculation of an indicative cashout price within 15 minutes of the end of a Settlement Period.

The BSC also requires the TC to submit the actual BSAD the following day. This is known in the BSAD Methodology Statement as "post event re-submission". This post event re-submission ensures that the SAA's calculation of System Prices uses the actual volume(s) of BSAD when calculating a final cashout price.

The BSAD Methodology Statement is owned by National Grid, and may only be modified in accordance with the processes set out in Standard Condition C16 of the Transmission Licence. National Grid is required to annually consult on the C16 statements, which includes the BSAD Methodology Statement.

## National Grid C16 Annual Consultation

On 28 January 2016 National Grid published its consultation on changes arising from its Transmission Licence Condition C16 review of its C16 Statements. This includes changes to the BSAD Methodology Statement. The deadline for responses to the consultation was 25 February 2016.

## Non-Balancing Mechanism Short Term Operating Reserve

Non-Balancing Mechanism (BM) Short Term Operating Reserve (STOR) is a STOR instruction by the Transmission Company issued outside of the BM in order to increase generation or reduce demand.

## Withdrawn Modification P334

The P335 Proposer previously raised Modification [P334 'Inclusion of Non-BM STOR costs and volumes into the cashout price in time for publication after the end of the Settlement](#)

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[Period](#)<sup>1</sup>. The P334 IWA recommended that P334 be sent to the Report Phase with an initial recommendation to reject, and though the P334 Modification Proposal was presented to the Panel the Proposer decided to withdraw P334 before the Panel decided how to progress it. P335 was therefore raised to address the same underlying issues as P334 (as contended by the Proposer) but with a more effective solution. That is, rather than focusing on a best estimate, P335 intends to require the reporting of actual Non-BM STOR.

## Current Arrangements

### Initial Cash out price

The BMRA calculates and publishes an indicative cashout price for every Settlement Period based on the data available to it at the time. This initial price is replaced by an improved cashout price that contains more accurate volumes and data five Working Days later, as part of the Initial Interim (II) Settlement Run.

The initial estimate of BSAD from the Transmission Company (by the end of the Settlement Period) is used in the BMRA's calculation of the initial cashout price. Information in the revised BSAD is used in the II Settlement Run cashout price five Working Days later.

The costs and volumes of non-BM STOR actions are reported as BSAD. The BSAD Methodology Statement<sup>1</sup> does not specify when non-BM STOR must be reported as BSAD or treated in a particular way (i.e. unlike Demand Side Balancing Reserve<sup>2</sup> and certain other Balancing Services). The costs and volumes of non-BM STOR actions may therefore be included in both the initial and revised submissions of BSAD to the extent that the Transmission Company is able to.

In practice the TC reports non-BM STOR as part of its post event re-submission of BSAD. This is because the TC reports BSAD as soon as possible after Gate Closure (in accordance with BSC Section Q6.3.1(a)(ii)) which does not allow time to report non-BM STOR for use by the BMRA. That is, non-BM STOR is typically dispatched after Gate Closure and therefore after the TC has reported its estimate of BSAD for the SP.

## What is the issue?

The Proposer notes that cashout is meant to provide the principal incentive for demand and supply to balance in the short term. The Proposer believes that to provide this incentive, cash-out prices need to be accurate in the short term in order to encourage efficient short term decision making.

The Transmission Company is required to submit an estimate of BSAD as soon as reasonably practicable after Gate Closure, and in practice reports BSAD very shortly after Gate Closure. The Proposer notes that the Transmission Company typically dispatches non-BM STOR after Gate Closure, and therefore data relating to it cannot be submitted until the next day, in the revised BSAD.

The Proposer contends that delay in the inclusion of non-BM-STOR can result in both a change in the direction of the Net Imbalance Volume (NIV), from long to short, and a

<sup>1</sup> BSAD Methodology Statement v12, effective 5 November 2015, available on the [Transmission Licence C16 Statements page](#) of the National Grid website.

<sup>2</sup> The BSAD Methodology Statement specifies that Demand Side Balancing Reserve (DSBR) will not be included in the initial estimate; DSBR volumes are included in the post event re-submission BSAD issued the next day.

change in the cashout price, noting the current dispatch volumes of up to 300MWh of non-BM STOR.

The Proposer contends that the cashout price published after the end of a Settlement Period cannot be relied upon because it may change between the indicative price calculation and the II Settlement Run calculation, and that delay in the inclusion of non-BM STOR costs and volumes can cause such change, and that this unreliability reduces the incentive to balance and can lead to sub-optimal trading decisions being made.

### Proposed solution

At present the BSC requires the Transmission Company to submit its estimate of BSAD for a Settlement Period as soon as reasonably practicable after Gate Closure for that Settlement Period (and not later than its end). This data is included in the indicative cashout price published within 15 minutes of the end of the Settlement Period.

In order that the TC submits its estimate of BSAD as soon as reasonably practicable after Gate Closure, Non-BM STOR dispatched after Gate Closure is not included. Instead the TC reports this data the next day, which is then incorporated in the revised imbalance cashout price for the II Settlement Run, five Working Days later.

P335 seeks to implement a solution that will enable the inclusion of non-BM STOR costs and volumes in the indicative cashout price calculation.

### Possible solution approaches

The P335 Proposal Form identifies three possible solution approaches to achieve the inclusion of non-BM STOR costs and volumes in the indicative system price. These potential options were suggested for consideration and development and were not intended to limit the solutions that could be considered under P335.

#### Option 1: Delay BSAD submission

Amend the BSC so that the Transmission Company's submission of BSAD is not required to be as soon as reasonably practicable after Gate Closure, enabling a delayed BSAD submission which would include an estimate of all BSAs struck after Gate Closure.

#### Option 2: Require an additional BSAD submission

Require the Transmission Company to provide a further BSAD submission after Gate Closure but before the end of the SP that captures any further BSAs taken after Gate Closure and before the end of the Settlement Period.

#### Option 3: Publish pre-Gate Closure trades & estimate post-Gate closure actions

Require the Transmission Company to publish pre-Gate Closure BSAD trades as they are struck and submit an estimate of any further BSAs taken after Gate Closure in time for inclusion in the Indicative System Sell Price and Indicative System Buy Price.

## Applicable BSC Objectives

The Proposer believes that P335 would better facilitate Applicable BSC Objectives (b), (c) and (d) compared with the existing baseline for the reasons set out below.

### Applicable BSC Objective (b)

The Proposer contends that P335 would result in the timely inclusion of non-BM STOR in the calculation of indicative System Prices, and that this would reduce the incidence of changes to the cashout price by the II Settlement Run. The Proposer believes that this would improve market participants' confidence in the accuracy of the cashout price published at the end of the Settlement Period, which would enhance the ability of market participants to value trades ahead of gate closure for subsequent Settlement Periods.

The Proposer believes that this would better facilitate Objective (b) by reducing the actions that the System Operator has to take after Gate Closure to balance the System, therefore, facilitating the efficient, economic and co-ordinated operation of the GB Transmission System.

### Applicable BSC Objective (c)

The Proposer believes that under P335 the whole market would have access to the same information, and that this would better facilitate Objective (c). They contend that the current arrangements could disadvantage smaller players because they may have less resource to devote to predicting the impact that non-BM STOR will have on the cashout price.

### Applicable BSC Objective (d)

The Proposer also contends that P335 would reduce the incidence of cashout price changes and believes this would promote greater efficiency in the implementation and administration of the balancing and settlement arrangements, facilitating Objective (d).



#### What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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### 3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress P335, and which a Workgroup should consider as part of its assessment of P335. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

#### What is the optimal P335 solution?

##### Development of solution

Three approaches for consideration are included in the P335 Proposal. The Workgroup should consider these approaches, and any others it identifies, and develop the solution based on the most effective approach (or combination of approaches). Ultimately the Proposer is seeking to improve the accuracy and reliability of the indicative System Price by enabling as much BSAD as possible to be included in the indicative System Price calculation.

##### Other effects

In developing the solution the Workgroup should be mindful of any other effects, either beneficial or detrimental, that could result. For example, could delaying the submission (or adding a further submission) of BSAD cause the quality of other information submitted to be improved or worsened? What knock on effects might Parties have to manage, e.g. if BSAD was not reported at Gate Closure but later in the Settlement Period?

#### What are the impacts and benefits of P335?

The contended negative impact of the current arrangements on cashout should be considered and assessed if possible.

The Workgroup should also consider implementation of P335, taking into account impacts on the BSAD Methodology Statement and National Grid, and consider what impact the implementation approach would have on any prospective benefit.

#### Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P335:

Areas to Consider
What is the optimal P335 solution?
What are the impacts, benefits and disbenefits of P335?
What changes are needed to BSC documents, systems and processes to support P335 and what are the related costs and lead times?
Are there any Alternative Modifications?
Does P335 better facilitate the Applicable BSC Objectives than the current baseline?

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## 4 Proposed Progression

### Next steps

We believe that P335 should go into an Assessment Procedure so that a Workgroup can consider the areas set out in Section 3. The Proposer has not requested that P335 be treated as a Self-Governance Modification. As changes to the C16 Statements must be agreed by Ofgem we believe that P335 is not suitable for the Self-Governance arrangements.

### Workgroup membership

We recommend that assessment of P335 should be undertaken by the same Workgroup considering Proposed Modification [P333 'Inclusion of DSBF volumes into the cashout price in time for publication after the end of the Settlement Period'](#), which relates to a similar area. The Workgroup should comprise experts on imbalance prices and calculation methodologies; specifically any members of previous related groups (P305, P323, Issue 56); and any other relevant experts and interested parties.

### Timetable

We recommend that P335 undergoes a four month Assessment Procedure, with the Assessment Report being presented to the Panel at its meeting on 14 July 2016.

The proposed timetable provides for discussions with National Grid, development of the solution and completion of any supporting analysis required. It appears likely that separate industry impact assessment and Assessment Procedure consultation will be needed to best facilitate the assessment of P335.

Proposed Progression Timetable for P335	
Event	Date
Present Initial Written Assessment to Panel	10 March 2016
Workgroup Meeting	W/B 14/21 March 2016
Workgroup Meeting	W/B 4 April 2016
Industry Impact Assessment	11 – 30 April 2016
Workgroup Meeting	W/B 2 May 2016
Assessment Procedure Consultation	9 – 27 May 2016
Workgroup Meeting	W/B 6 June 2016
Present Assessment Report to Panel	14 July 2016
Report Phase Consultation	15 – 30 July 2016 (12WD)
Present Draft Modification Report to Panel	11 August 2016
Issue Final Modification Report to Authority	12 August 2016



### What are the Self-Governance Criteria?

A Modification that, if implemented:

- (a) is unlikely to have a material effect on:
  - (i) existing or future electricity consumers; and
  - (ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
  - (iii) the operation of the national electricity transmission system; and
  - (iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
  - (v) the Code's governance procedures or modification procedures; and
- (b) is unlikely to discriminate between different classes of Parties.

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## 5 Likely Impacts

### Impact on BSC Parties and Party Agents

None identified

### Impact on Transmission Company

The Transmission Company would be required to submit its estimate of non-BM STOR costs and volumes; the impact to achieve this is to be determined and is dependent on the approach adopted for the P335 solution

### Impact on BSCCo

To be determined, may be dependent on the approach adopted for the P335 solution

### Impact on BSC Systems and processes

To be determined, may be dependent on the approach adopted for the P335 solution

### Impact on BSC Agent/service provider contractual arrangements

BMRA	The BMRA may be required to receive and process BSAD information in a different timescale, and/or receive and publish additional BSAD information depending on the solution approach.
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### Impact on Code

Code Section	Potential Impact
Section Q	Change required to implement Modification

### Other Impacts

Item impacted	Potential Impact
BSAD methodology statement	Change may be required to implement Modification

## 6 Recommendations

We invite the Panel to:

- **AGREE** that P335 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P335 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

## Appendix 1: Glossary & References

### Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
BM	Balancing Mechanism
BMRA	Balancing Mechanism Reporting Agent
BPA	Buy Price Adjuster
BSAD	Balancing Service Adjustment Data
BSASS	Balancing Service Adjustment Actions
NIV	Net Imbalance Volume
SO	System Operator
SPA	Sell Price Adjuster
STOR	Short Term Operating Reserve
TC	Transmission Company

### External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	P334 page on the ELEXON website	<a href="https://www.elexon.co.uk/mod-proposal/p334/">https://www.elexon.co.uk/mod-proposal/p334/</a>
4	Transmission Licence C16 Statements page on the National Grid website	<a href="http://www2.nationalgrid.com/uk/industry-information/electricity-codes/balancing-framework/transmission-license-c16-statements/">http://www2.nationalgrid.com/uk/industry-information/electricity-codes/balancing-framework/transmission-license-c16-statements/</a>
9	P333 page on the ELEXON website	<a href="https://www.elexon.co.uk/mod-proposal/p333/">https://www.elexon.co.uk/mod-proposal/p333/</a>